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C O N F I D E N T I A L BAGHDAD 004107

SIPDIS

NSC FOR ABRAMS/DORAN/POUNDS TREASURY FOR GLASER/LEBENSON;  
EB/ESC/TFS FOR SALOOM; NEA/I/ECON

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SUBJECT: UPDATE ON SYRIAN RETURN OF IRAQI ASSETS

REF: DAMASCUS 4765 (NOTAL)

Classified By: DCM David M. Satterfield for reasons 1.4 (b) and (d).

11. (C) Emboff met Dr. Saladin H. Al-Hadithi, Director General, Iraqi Fund for External Development (DFI), Ministry of Finance, October 4 for his take on his recent trip to Damascus to discuss the current status of Iraqi funds in Syrian banks (reftel; Saladin headed the GOI team). The main purpose of his trip had been to better understand why and to whom the Commercial Bank of Syria (CBS) had decided to pay out \$463.2 million of Iraqi assets without GOI consultation. \$266 million was given to Syrian public sector claimants and \$237.7 million to Syrian private sector claimants (total of \$503.8 million). Syria, for reasons still unclear, pulled back \$39.9 million from the initial payout and transferred it to the Iraq DFI (\$503.8-\$39.9=\$463.1 million). The Syrians also flagged another \$800 million claims by Syrians on Iraq. Saladin was skeptical on this number. He asked what Syria would have, that Iraq would pay \$800 million for.

12. (C) Saladin noted that while the GOI was pleased with the August 5 transfer of \$261 million, he was concerned with the missing/unaccounted \$463.1 million that the CBS had already given away. Saladin sent a note to the Syrians expressing concern over the \$463.1 million and requested a follow-up meeting so that the two sides could review all these payments. Saladin said that if this cannot be settled at his level, then it would go to the respective countries Ministers of Finance. If this doesn't work, Iraq is prepared to have third party mediation or arbitration. He said that this procedure had been agreed upon by both sides in a July 21 memorandum of understanding signed by the Iraqi Minister of Oil and the Syrian Minister of Finance (Saladin declined to provide a copy). He noted that the MOU did not contain any deadlines, so he expected that it would take some time to resolve. Nonetheless, he expected that there would be another round of bilateral talks soon, probably in Damascus.

13. (C) Comment: Saladin was quite adamant about the \$503.8 million cited above and not the \$580 million pay out figure cited in reftel. While not directly related to his meetings last month in Damascus, he told us that Syrian-Lebanon Bank in Beirut transferred this summer \$71 million to the DFI (in three tranches: \$45 million, \$15 million and \$11 million).

Khalilzad